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SUBJECT: The Japan Economic Scope - January 12, 2007

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2. (U) This cable contains the Japan Economic Scope from January 12, 2007.

3. (SBU) CPRR Insider Disappointed with Reform Report

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In a meeting with EMIN on January 7, a Council for the Promotion of Regulatory Reform (CPRR) board member expressed her disappointment with the Council's final report of recommendations of matters on which the GOJ should focus its reform efforts (see Tokyo 7180).

Fierce bureaucratic resistance on issues such as selling off some 770,000 apartments managed by the GOJ to pay down national debt resulted in many impasses and few concrete results.

So bleak is her outlook for reform that she recently decided to pull her dual-citizen daughter out of the Japanese educational system and enroll her in an English-based international school. "Japan is going nowhere." See Tokyo 00154 for more detail.

4. (U) Japanese Stock Markets Merging?

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The Yomiuri Shimbun reported on January 5 that the Tokyo Stock Exchange and five other Japanese stock markets may be merged by 2009.

Three market management companies -- one led by the TSE on spot markets, another led by the Osaka Securities Exchange on futures markets and a third one merged from markets for start-up companies such as the TSE's Mothers and Jasdag -- would operate under a to-be-established holding company, according to the Yomiuri.

The Embassy contacted a press officer at the Japan Securities Dealers Association, who said, however, the Association was "not

planning anything."

The Osaka Securities Exchange also issued a press release stating that "There is nothing that should be publicly announced at the moment."

15. (U) Electricity Deregulation: METI Backing Away; Commercial Customers Face Continued Price Discrimination  
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METI will delay plans to allow new power providers into the residential electricity market, according to the Nikkei Shimbun. Because of the dramatic rise in fuel costs, the ministry has decided against lifting restrictions in 2009 that would have allowed new companies to enter the market and would have enabled consumers to choose electric companies based on pricing and other criteria.

Japan began liberalizing the electric power market in 1995 at the wholesale level. Partial easing of the retail sector began in 2000 resulting in a market that now is about 60 percent deregulated. Opening the remaining market, which would have included households and small businesses, was expected to spur competition and push down prices.

In a separate but related area, ECOUNS was told during a recent visit to the Embassy by Spectol Power Design Co. that Japan's two-tiered electricity pricing system begun after WWII continues to exist, affecting such commercial customers as Aeon/Jusco, Costco and Wal-Mart, which are likely unaware that they pay 10-20 percent more for electricity than industrial companies. This system offers cheaper electricity to heavy industry than to commercial users and was begun after the war to promote export-oriented manufacturers.

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According to Spectol, Japanese utility companies also discriminate in price based on the size of the client, charging small mom-and-pop shops more than larger-scale customers. Because utilities continue to control this market, the small-scale user has no other option.

16. (U) MHLW: Number of Drug Reviewers to Be Increased  
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Yomiuri Shimbun has reported that the Ministry of Health, Labor and Welfare plans to double over the next three years the number of personnel who examine applications for new drugs in order to shorten the approval time. Currently there are 197 Japanese reviewers compared to 2,200 in the United States, 693 in the United Kingdom and 942 in France.

In addition, the media is also reporting that the Council for Science and Technology approved a report on December 25 which, along with the recommendation to increase the number of drug reviewers, also calls for increasing the fees paid by manufacturers to fund the cost of additional reviewers and deregulating employment rules to allow staff to be hired from industry.

17. (U) Agriculture Protectionists in LDP Circling the Wagons  
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The Liberal Democratic Party is set to establish in January an Economic Partnership Agreement Forum, consisting of agriculture caucuses and producer associations which share largely protectionist agendas -- particularly with respect to sensitive items such as rice, wheat, beef, dairy and sugar.

The Forum plans to offer recommendations on free trade agreements, focusing initially on FTA talks with Australia.

Reports show as possible members of the forum the Central Union of Agricultural Cooperatives, Dairy Farmers Political Federation

of Japan, Flour Millers Association, Dairy Industry Association of Japan, and the Japan Sugar Refiners' Association.

A leading candidate for the panel chair is former Agriculture Minister Tadamori Oshima, a conservative. At present he chairs the LDP Research Commission on Trade in Agricultural and Marine Products, which urged the government to halt negotiations last month if Australia failed to appreciate Japan's concerns about sensitive products.

#### 18. (SBU) Swiss Econ Counselor on Narita and Swiss-Japan FTA Ag issues

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Swiss Econ Counselor Alberto Groff told Econoff on January 9 that after several years of talks, Japan finally granted Switzerland two more slots at Narita, allowing SWISS airlines to have daily flights into Japan. The new flights are expected to begin in February. For SWISS press release, [click here](#).

Switzerland is also in the final stages of reaching an agreement on a FTA with Japan. Even though Switzerland is hardly an ag export powerhouse, agricultural products were an issue in the negotiations. The Japanese deemed as sensitive some the items on the Swiss list of potential agricultural exports.

#### 18. (SBU) Civair: Chiba Prefecture on Asia Gateway, Haneda and Narita Expansion

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Chiba Prefecture officials responsible for airport matters felt PM Abe's Asia Gateway proposal for 24 hour operations at airports must relate to Haneda airport as they could not foresee night time flight operations being allowed at Narita. Neither the Prime Minister's office nor the MLIT officials have approached them about Narita night time operations.

Econoff and EconFSN met with these officials on January 10 as they have responsibilities for mediating between the residents of Chiba prefecture and the central government. Narita airport is located in Chiba prefecture and many of the flight paths for Haneda pass over Chiba. A memo summarizing the meeting is attached.

#### 19. (SBU) FedEx Looks at Central Japan Routes

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Federal Express is exploring the possibility of adding additional routes to Nagoya's Centrair airport, Haruya Kato, FedEx Managing Director for Japan, Guam, and Saipan told Nagoya PO at a January 11 meeting.

Kato, who met earlier in the day with Centrair CEO Yukihiisa

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Hirano, noted that while FedEx has no immediate plans to add new lines, the company is evaluating how best to handle growing shipments from Central Japan.

FedEx currently routes shipments from Central Japan to Europe and Asia through Centrair and shipments to North America through Kansai International Airport.

Although FedEx has maintained its leading share in the expanding market for overnight shipments out of Japan, Kato described competition as fierce with Japanese carriers posing an increasing challenge.

#### 110. (SBU) Protesters at Narita Airport Few but Still Active

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On January 7, the only active faction of radical protesters of Narita Airport called the Farmer's League Against the Narita Airport (known as Sanrizuka Domei; [click here for their website](#)) held a New Year meeting with a pledge to fight against Narita's expansion. Approximately 150 people attended.

The faction calls the northern expansion of the runway at Narita airport a national crime and claims Prime Minister Abe is seeking to break their movement.

The League's New Year pledge calls for a gathering of protesters in March.

#### 11. (U) JAL Restructuring Plan Expected in February

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The Asahi Shimbun reported that JAL should announce a wide ranging reform plan on February 6. This news comes amidst several press stories this week on JAL's attempts to reduce costs and attract new customers.

These efforts include plans to cancel money-losing domestic routes, introduce first class seats on domestic flights, and cut some 3,000 jobs over three years through early retirement, attrition and outsourcing.

#### 12. (SBU) Ports: Reform Problems Continue

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A foreign ship operator told Econoff and EconFSN this week that informal barriers to entry continue to exist for Japanese port operations hindering competition among port operators, preventing new port operators from entering the market, and keeping costs of doing business high.

This is a problem for Japanese companies as well as foreign ones. One dramatic example he provided was Toyota's recent attempt to take over port operations at a new wharf opening in Nagoya in 2005 to streamline its shipping operations. Even Toyota could not get a license for port operations and the end result was three existing Japanese firms and local operators in Nagoya doing the port operations.

He referred us to last year's EU's "Proposals for Regulatory Reform in Japan," (see pp. 42-43) for a description of the situation, the prior notification system, and the role of the industry's group -- the Japan Harbor Transportation Association (JHTA) -- in forestalling competition.

The JHTA is apparently vindictive, as our contact said it has held up approvals of applications for foreign shippers in the past when negative commentary about it appeared in foreign publications.

When queried about the President of the Council for the Promotion of Regulatory Reform, Takao Kusakari, who is chairman of the NYK shipping line, our contact said he apparently has been interested in regulatory reform but as it relates to regulations over shipping, not necessarily port operations.

#### 13. (U) Mitsubishi UFJ Financial Group Tops Survey

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The Nikkei Financial Daily's annual survey of accounting and finance officers at publicly traded companies ranked Mitsubishi UFJ Financial Group as the top financial institution in Japan. According to Nikkei, MUFG outshone its rivals in seven of 10 categories, including reliability for international operations and emphasis on compliance.

MUFG beat out rivals Mizuho (which was ranked highest for M&A expertise) and Sumitomo Mitsui for the top spot.

SCHIEFFER